

Overview of Vermont's Unemployment Program and Trust Fund Challenge

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Purpose of Unemployment Insurance

- | To provide partial wage replacement to workers who find themselves out of work.
- | To provide economic stability for a community when major unemployment occurs.
- | To encourage workers to remain in the community and to be available for work recalls by employers.

Unemployment Insurance Laws

- | Unemployment Insurance is governed by a mixture of State & Federal Law
- | Title III of the Social Security Act and the Federal Unemployment Tax Act (FUTA) establish the basic parameters and standards.
- | States have some flexibility in establishing tax structures, determining claimant eligibility, and defining benefit levels.

Employer covers workers if:

- | It pays wages of \$1500 or more during a calendar quarter; or
- | Employs one or more workers for some part of a day in each of 20 weeks during the calendar year; or
- | Pays cash wages of \$1000 or more during a quarter for **domestic services** in a private home; or

Employer covers workers if:

- | Pays cash wages of \$20,000 or more in any calendar quarter or employs 10 or more workers in **agricultural services** during some part of a day in each of 20 weeks; or
- | It has to pay federal unemployment taxes (FUTA) on the worker's wages; or
- | Voluntarily elects to provide coverage.

Financing Unemployment Insurance

- | A federal tax (FUTA) is paid on the first \$7,000 of wages paid to each employee.
 - | This pays for the administration of the program at both the federal and state level.
- | In Vermont, a state tax (SUTA) is paid on the first \$10,000 in wages paid to each employee.
 - | 2009 Special Session increased taxable wage base from \$8,000 to \$10,000 effective January 1, 2010 through December 31, 2010
 - | This money is deposited in an account in the US Treasury and can only be used to pay unemployment benefits.

State Tax Rates

- | Two factors determine an employer's Vermont SUTA rate:
 - | A ratio (experience rating) is calculated each year that reflects the benefits charged to the employer's account in relationship to wages paid by the employer. The experience rating is used to allocate the cost among employers.
 - | The current value of Vermont's UI trust fund reserves determines which of 5 possible tax schedules shall be applied for the next year.

Some employers are self-insured:

- | Government & non-profit (IRC 501(c)) entities may elect to reimburse VDOL the cost of benefits paid their workers.
- | If they elect to reimburse, they do not pay quarterly taxes into the fund and are not relieved of any benefit cost.
- | They do not pay any of the administrative costs.

Federal Unemployment Tax

- | The federal tax is 6.2% of the first \$7,000 of each employee's wages, but:
- | The rate is reduced to 0.8% if:
 - | The state's law conforms to federal requirements,
 - | The state has not gotten advances from the federal trust fund accounts within the last 2 years, and
 - | The employer has paid all state UI taxes.
 - | The rate increases if VT borrows for two or more years.

Eligibility for Benefits

- | To determine monetary eligibility:
 - | The worker must have earned covered wages in at least two of the five calendar quarters (base period) prior to applying for benefits.
 - | The worker must have earned at least \$2,099 in the highest quarter and wages in the remaining three quarters of the base period must equal or exceed 40% of the highest quarter.
- | If above criteria is met, a weekly benefit amount is determined.

Eligibility for Benefits

- | Benefits are paid if:
 - | The worker is laid off due to lack of work or quit with good cause attributable to the employer.
 - | The worker must be able and available for work. Generally to demonstrate the worker is able & available:
 - | Must make 3 job contacts a week
 - | Must be willing to accept a job offer.

Eligibility for Benefits

- | Benefits are delayed if:
 - | The worker was fired for misconduct
 - | substantial disregard of an employer's interest
 - | The worker quit because a health condition prevents the worker from doing the specific job but can do other work.

Eligibility for Benefits

- | Benefits are disqualified if:
 - | The worker was fired for gross misconduct
 - | Examples: theft or violence at the workplace
 - | The worker quit without good cause attributable to the employer.

Weekly Benefits

- | The weekly benefit is calculated by dividing the two highest quarters' wages by 45 up to a maximum of \$425.
 - | 2009 Special Session, froze maximum amount at \$425 until June 30, 2010.
 - | The maximum amount is adjusted upward each year at the same rate as the average wage of all workers, provided there have been no Title XII advances made to the state during that year.
- | The worker's total benefit during a benefit year is 26 times the weekly benefit amount.

Current Status of UI Program

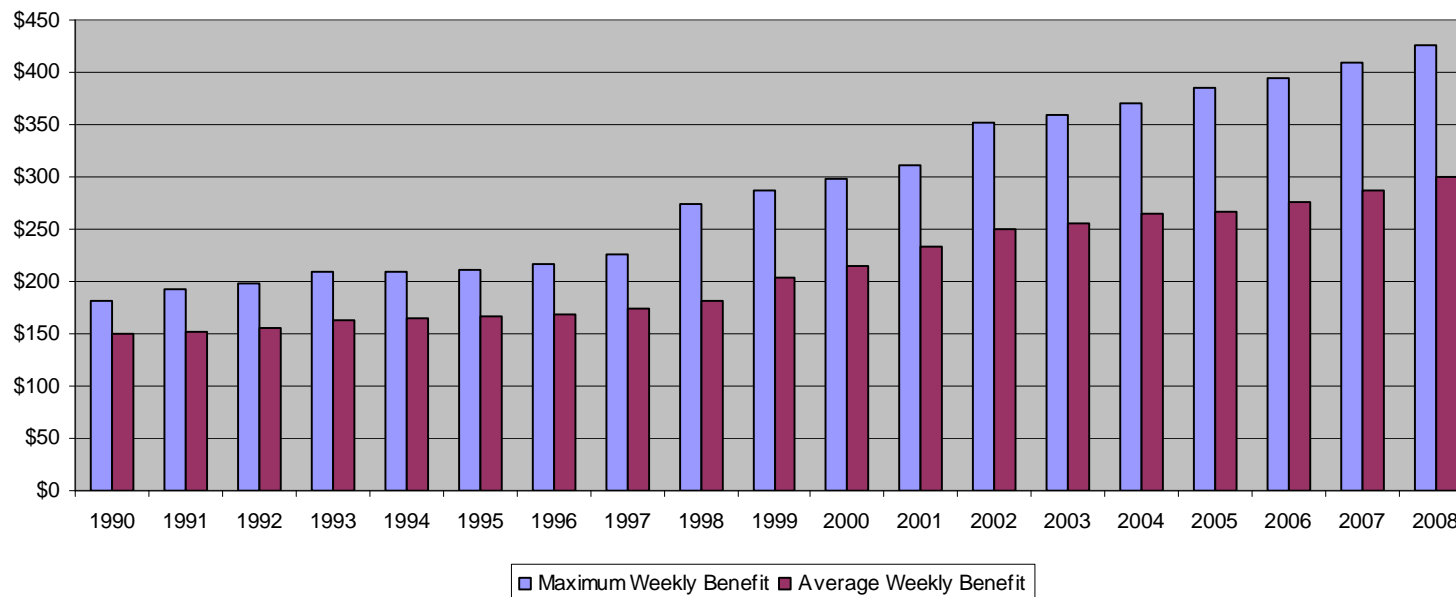
Week ending 04/17/10

- | Trust Fund Balance: -\$30 million
- | Current line of credit request: \$58 million
- | Projected balance by end of 2010: - \$68 million
- | Weekly payments: approximately \$4 million
- | Left unaddressed, borrowing could exceed \$257 million

Why is the fund in trouble?

- By current Vermont law, benefit payments increase each year indexed to the rise in average wages. Two increases above COLA in 1998 and 2002.

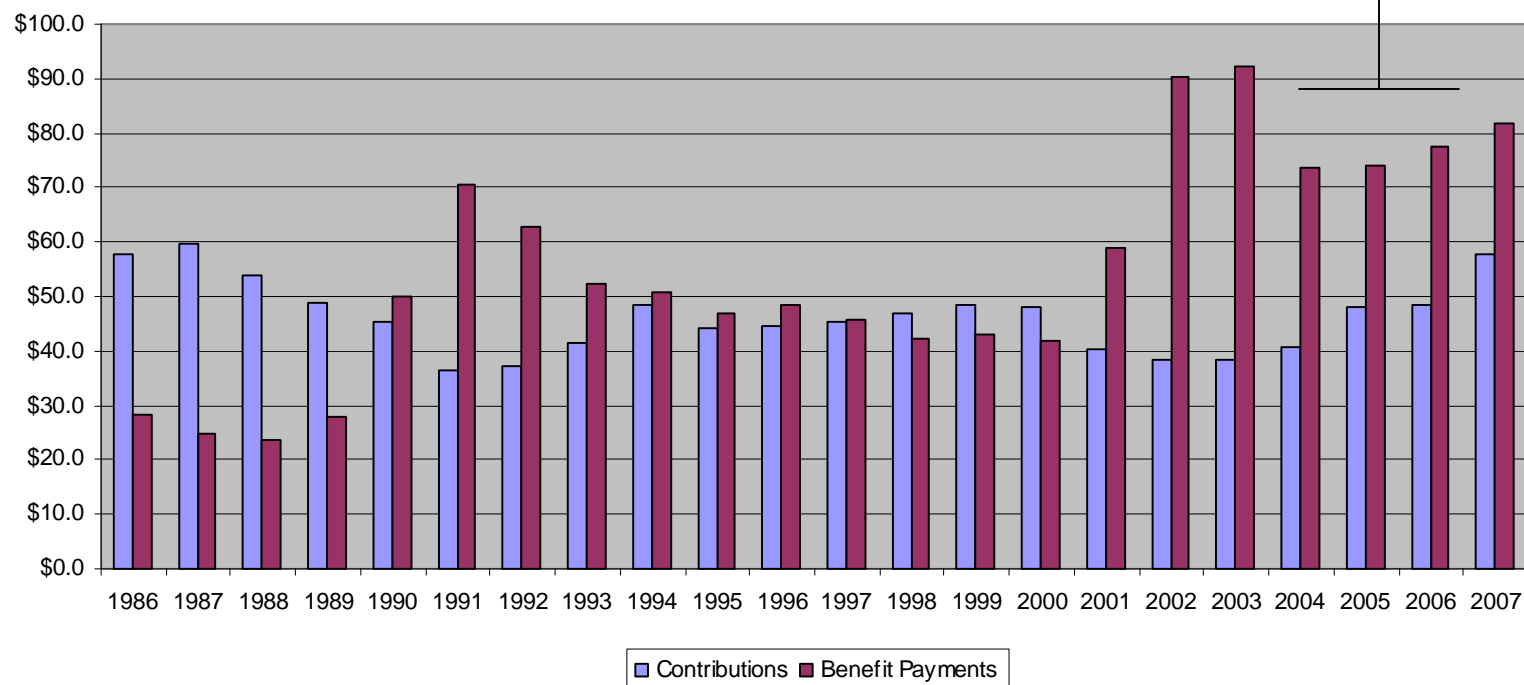
Weekly Benefits



Revenue increased but not enough

UI Benefits & Contributions

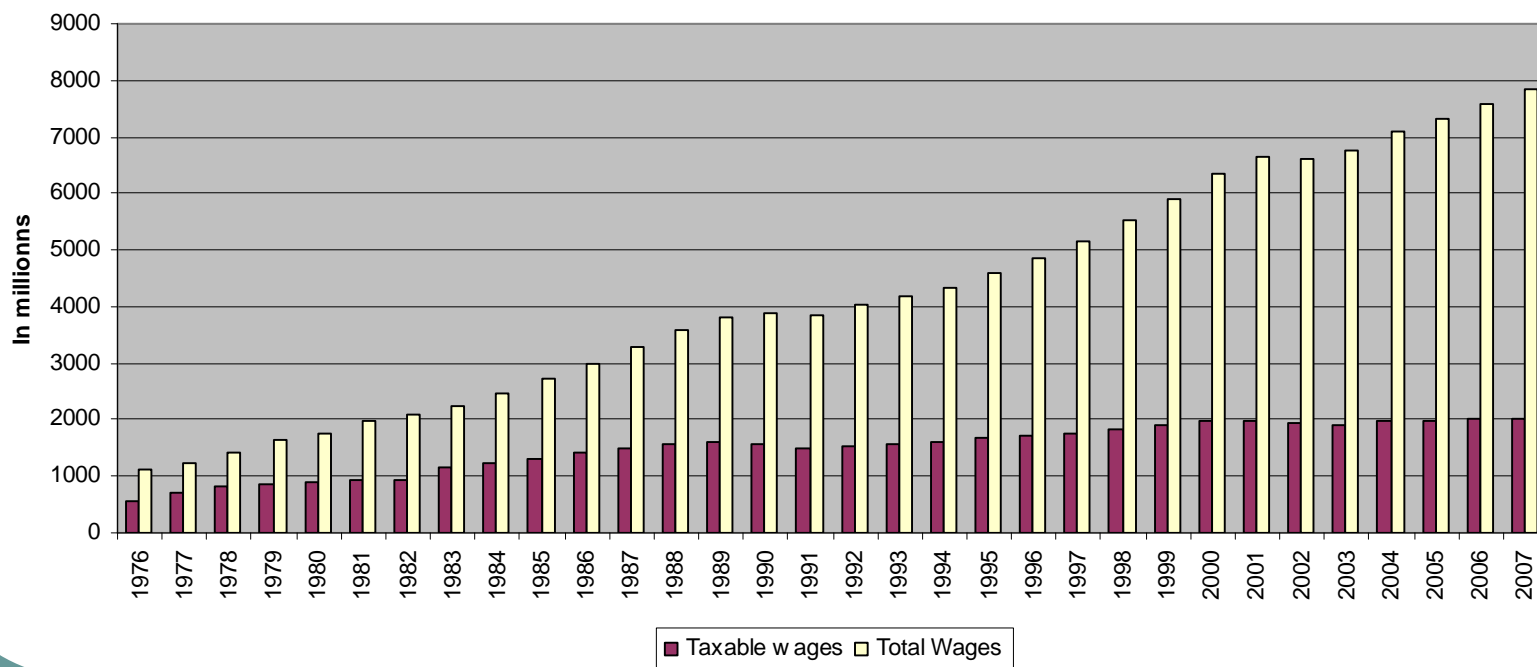
Note that benefits outstrip contributions even in relatively good economic times.



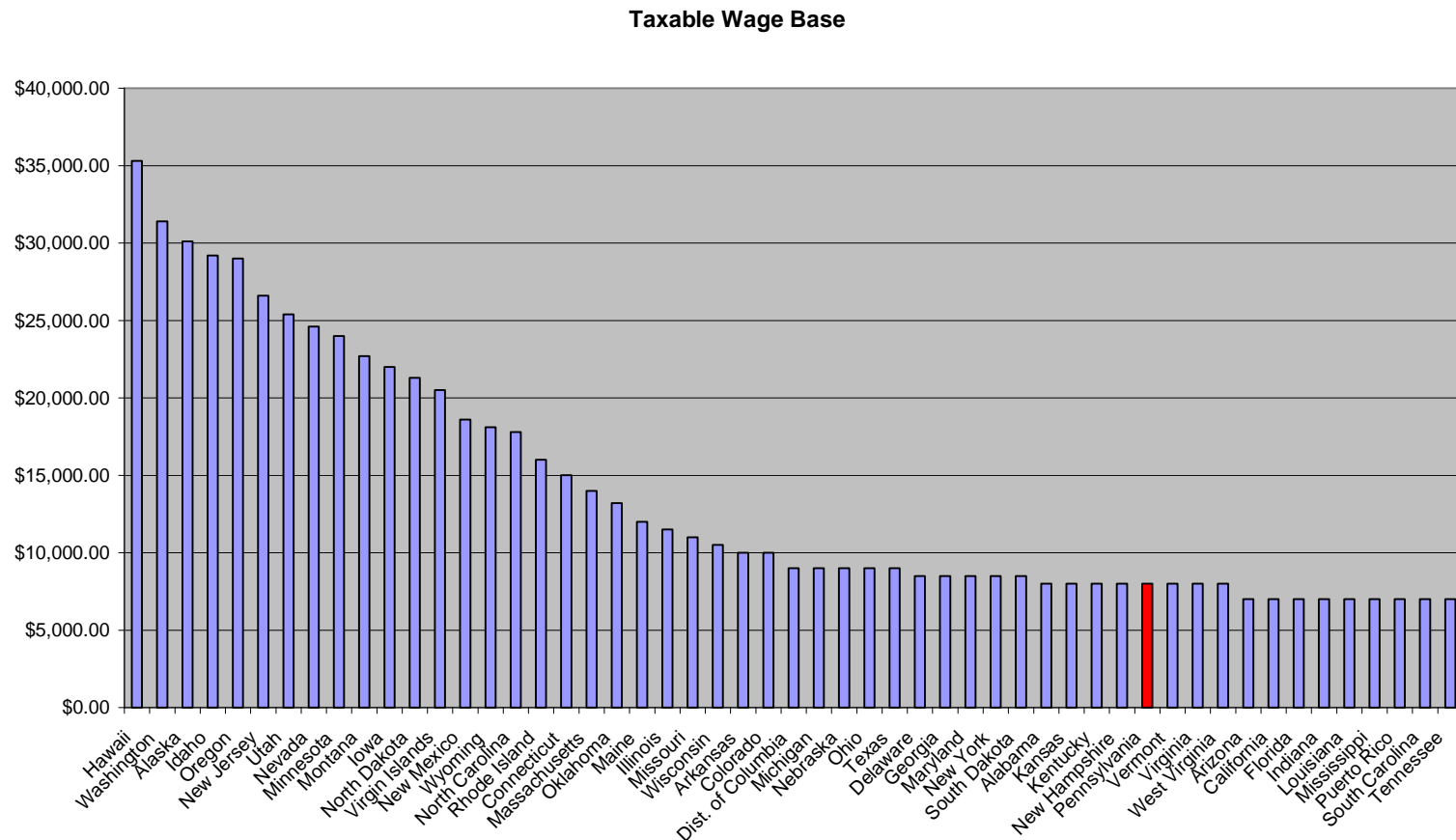
Taxable wages have remained stable

By Vermont law, UI taxes are charged against the first \$10,000 (increased from \$8,000 to \$10,000 01/01/10 to 12/31/10) of an employee's wages

Tax Paying Employers- All Wages and Taxable Wages



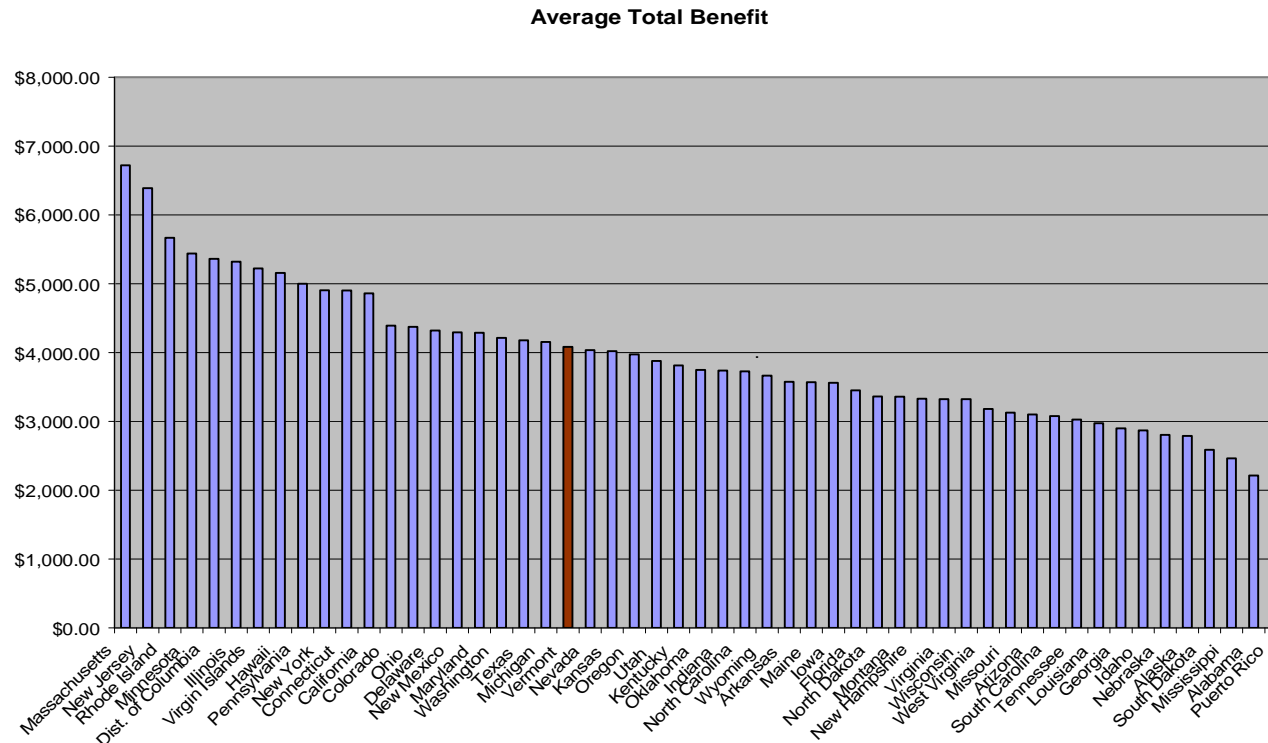
Taxable wage base ranks low nationally.



* Source: USDOL UI Data Summary 1st Quarter CY 2009

Average total benefits

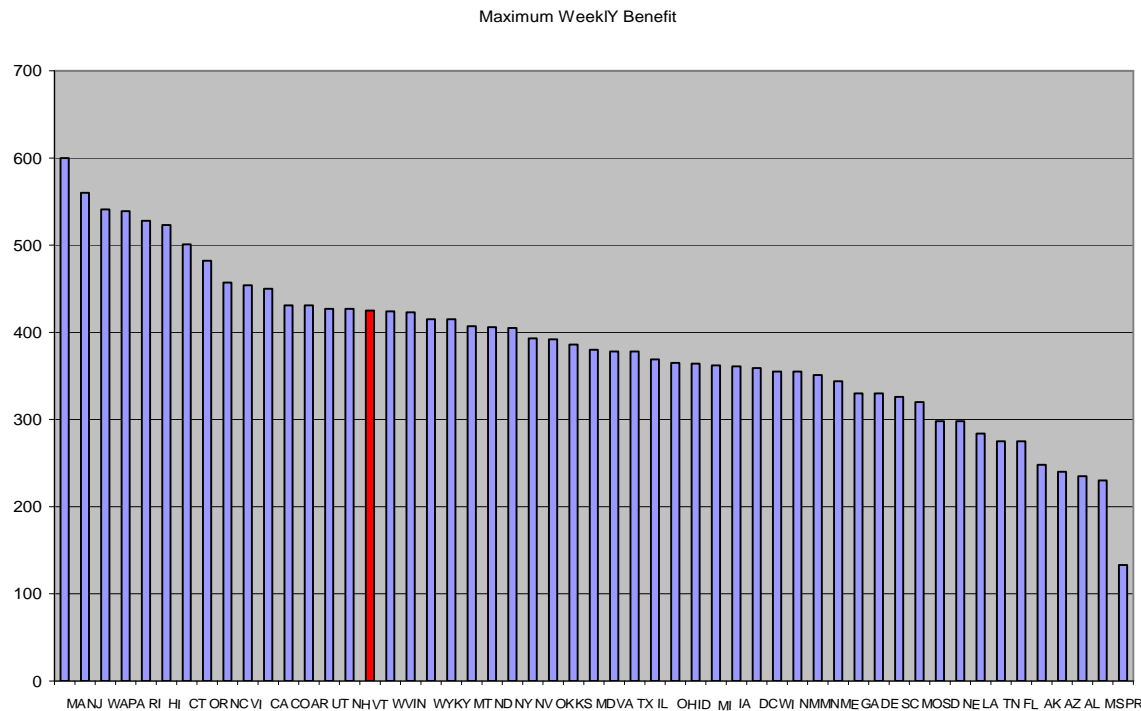
- Compared to the nation, Vermont offers relatively high benefits. 21st in the nation*



* Source: USDOL UI Data Summary 1st Quarter CY 2009

Maximum weekly benefit

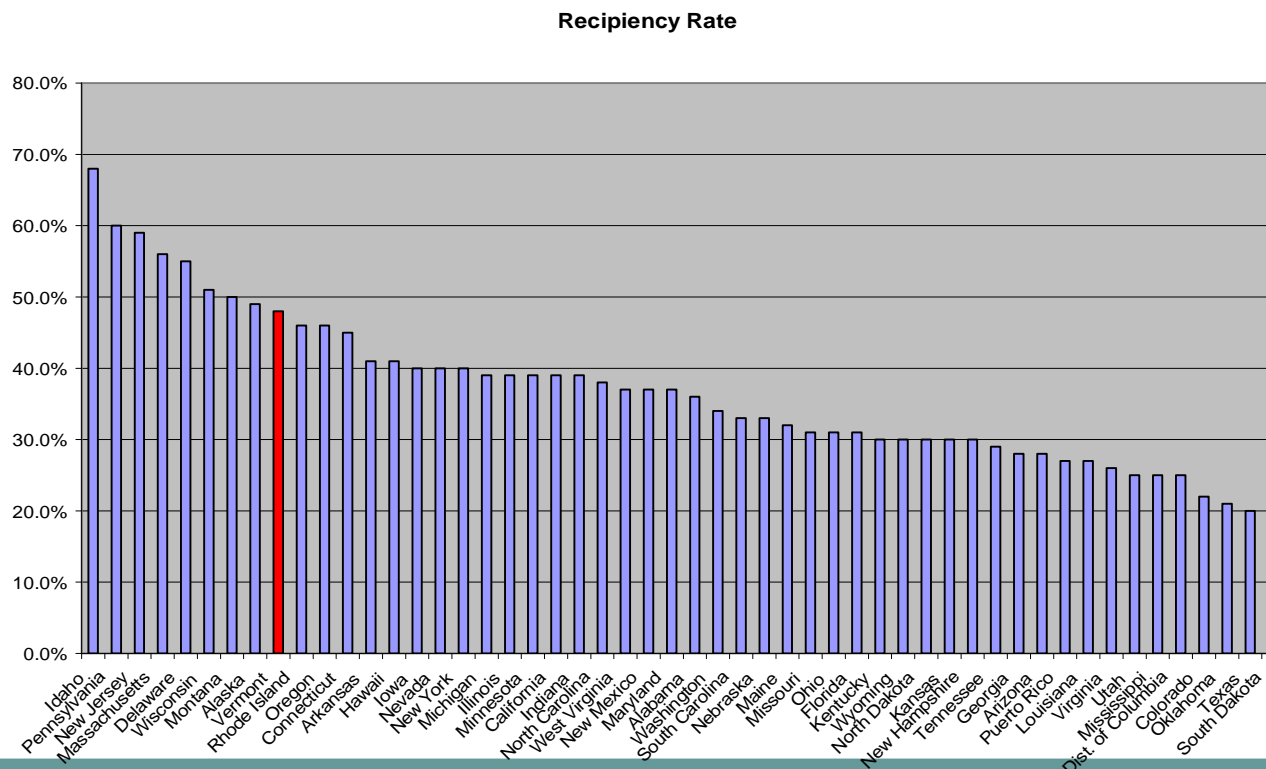
VT ranks 16th in the nation at \$425 per week, maximum weekly benefit*



* Source: USDOL UI Data Summary 1st Quarter CY 2009

Reciprocity rate

- In Vermont a higher percentage of the unemployed receive benefits than in most states. 9th in the nation*.



* Source: USDOL UI Data Summary 1st Quarter CY 2009

| Vermont replaces more of a worker's wages than most states. 9th in the nation.



How Vermont ranks nationally

- | Maximum benefit - \$425, 16th highest
(23rd highest when factoring in dependent allowance)
- | Average benefit as % average wage – 42%,
rank 12th
- | Average benefit- \$312, rank 20th
- | Reciprocity rate - 49%, rank 9th
- | Benefit exhaustion rate – 25%, rank 52nd
- | Average duration – 15 weeks, rank 30th

Source: USDOL UI Data Summary 1st Quarter CY 2009

Consequences Of Doing Nothing

**Vermont's UI Trust Fund is currently Bankrupt
and we are borrowing to pay benefits**

- | If not addressed, we will need to borrow approx. \$245 million by 2013.
- | Expected borrowing at the end of 2010 will be approx. \$68 million (based on April 2010 projections).
- | Interest must be paid from a non UI source.
- | Under existing law, maximum benefit would not increase once VT borrows money.
- | Employers FUTA taxes increase by 0.3% annually and cumulative starting in 2012.

What's next?

- | Await a report from the legislative study committee.
 - | Will there be recommendations or a list of issues and options?
- | Legislative committee's to take this up during the 2010 session are:
 - | House Commerce
 - | House Ways and Means
 - | Senate Economic Development
 - | Senate Finance

For more information:

- | www.labor.vermont.gov
 - | Click on “UI Trust Fund”, last bullet under “news” in the right hand column.
- | Stay tuned to the legislative discussion